

## **RECOMMENDATIONS OF THE SUBCOMMITTEE ON CREDITS AND EXEMPTIONS**

The Subcommittee on Credits and Exemptions was formed to review the City's real property tax system's existing credits and exemptions tax policies and to determine if these policies are appropriate, practical and applicable. The Committee's recommendations are set forth below.

### **Bill 33 - Relating to Real Property Tax Exemptions for Homes**

The Commission was tasked with reviewing Bill 33 (2019) CD1 but does not recommend supporting this Bill due to the difficulty in determining a connection between the value of a home and the amount that should be exempted. In addition, testimony from Steven Takara notes that there will be substantial administrative work required by the City relative to the amount of revenue generated. The Commission is also concerned about potential unintended consequences of the legislation, such as punishing local families, and rational nexus arguments.

### **Bill 30 – Relating to Cold Seawater-based district cooling system**

The Commission recommends that the exemption for sea water air conditioning systems be denied. This exemption focuses on businesses that connect to a regional sea water air conditioning system, receiving tax exemptions for utilizing the system. The exemption is intended to assist the seawater air conditioning producer in signing up users to sell their product.

While the Commission strongly supports the environmental benefits of seawater air conditioning and lauds the intent of signing up as many prospective customers as possible, we believe that it would not be equitable to provide a tax exemption to only one specific for-profit business when there are many other for-profit businesses receiving no exemptions. The Commission also had concerns with a lack of transparency in the amount of taxes that would be exempt, the fact that the City currently subsidizes large-scale renewable energy generation through property tax exemptions, the fact that the system will still likely be built regardless of the tax credit, and the fact that the seawater air conditioning system may only be utilized by certain buildings with compatible central plant chilling mechanisms.

### **Bill 3 (2019) Relating to the increase in the home exemption**

The Commission was tasked with reviewing Bill 3 (2019), which became Ordinance 19-7 on May 14, 2019 with unanimous support by the City Council. The Commission supports this ordinance, and further recommends that the Homeowner Exemption be annually adjusted to an inflation index, such as the Federal Bureau of Labor Statistics Consumer Price Index for the Hawaii Area.

### **Modification of ROH § 8-10.22: Historic Residential Real Property**

The Commission recommends modification of ROH § 8-10.22 relating to historic residential real property, to increase the minimum real property tax from \$300. The Commission recommends that fully exempt real property be subject to a minimum real property tax of \$1,000 and partially exempt real property be subject to real property taxes in an amount no less than \$1,000.

### **Repeal of ROH § 8-10.24: Credit Unions**

The Commission recommends repeal of ROH § 8-10.24 relating to property tax exemptions for credit union owned real property, and that federally chartered or state chartered credit unions be taxed at the same rate as commercial real property. During the November 7, 2019 commission meeting testimony was received from credit unions and credit union advocacy groups noting the benefits of the unions to their members including increased rates on savings over for-profit banks. However in the opinion of the

Commission, the testimony did not justify an equitable policy position to enable continued tax exemptions for this particular group.

#### **Modification of ROH § 8-10.30: Historic Commercial Real Property**

The Commission recommends modification of ROH § 8-10.30 relating to historic commercial real property, to increase the minimum real property tax from \$300. The Commission recommends that fully exempt real property be subject to a minimum real property tax of \$1,000 and partially exempt real property be subject to real property taxes in an amount no less than \$1,000.

#### **Repeal of ROH § 8-10.33: Child Care Centers**

Similar to the findings of previous commissions, the Commission recommends repeal of ROH § 8-10.33 relating to for-profit Child Care Centers, with the intent of balancing for-profit enterprises from an equitable policy standpoint.

#### **ROH § 8-10.35: Central Kakaako Industrial Zone**

Ordinance 16-21 which created the Central Kakaako Industrial Zone tax exemption took effect on July 1, 2017 and is set to expire on June 30, 2027. The Commission recommends that this Ordinance be accelerated to expire upon the date of substantial completion of the Central Kakaako station of the Honolulu Area Rapid Transit system, rather than June 30, 2027. We believe that the Council's stated intent of the Ordinance, to promote industrial uses within TOD zones, is being accomplished through established zoning requirements of HCDA's Mauka Area Rules. Additionally, in review of this policy, the Commission believes that the exemption fails from an equity perspective as there are many other non-industrial business properties in Kakaako that do not receive a property tax exemption.

#### **Bill 23 – Exemption for Chinatown properties purchased from the City**

The Commission does not recommend passage of Bill 23: we support the intent of Bill 23 but believe that the exemption is too focused on one specific area of Honolulu.

#### **New Accessory Dwelling Unit ("ADU") Property Tax Exemption**

The Commission suggests adoption of a property tax exemption, similar to or beyond the contents of Council Bill 63 (2018) to promote the construction of ADUs throughout Honolulu. While there is no single simple answer for increasing the supply of affordable and workforce housing in Honolulu, zoning changes allowing the construction of ADUs within Single Family Residential lots was a strong step in that direction. In order to incentivize construction of new ADUs by lowering costs Ordinance 16-19 waived wastewater facility charges, grading, plan review, and building permit fees for ADUs. The Ordinance did not address property taxes, however, and the Commission recommends that the Council revisit this issue.

#### **Property Tax Abatement For Redevelopment Of Low Income Areas**

To help facilitate job creation and revitalization of low income areas throughout Honolulu, the Commission recommends creating an "economic development" property tax abatement within all designated 2011-2015 LIC Census Tracts in Honolulu County. Any construction of new facilities or redevelopment/improvement within a designated tract would be allowed to abate the difference between the original value of property and value after improvements for a maximum of 15 years per TMK, with total abated taxes capped at \$500k per TMK.

Abatement would require Council approval. An Owner applying for the property tax abatement would to justify its benefit by presenting project information and associated community benefits, such as employment opportunities, blighted area redevelopment, and infrastructure improvements.

**Split ROH § 8-10.10 in Two**

The Commission reviewed, but does not support, adjusting the list of non-profit entities as defined in ROH § 8-10.10. The Commission agrees with the existing public policy benefit in maintaining the current list of exempted non-profit organizations. There are many non-profit organizations that are not 501(c)3s that provide tremendous benefits to the community and are justified in receiving a real property tax exemption.